

**REPORT OF THE AUDIT OF THE  
INTERIM BOURBON COUNTY  
SHERIFF**

**For The Period  
December 1, 2006 Through December 31, 2006**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE INTERIM BOURBON COUNTY SHERIFF**

**For The Period  
December 1, 2006 Through December 31, 2006**

The Auditor of Public Accounts has completed the interim Bourbon County Sheriff's audit for the period December 1, 2006 through December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

The interim Sheriff had excess fees of \$17,020 for the period December 1, 2006 through December 31, 2006.

#### **Report Comments:**

- The Interim Sheriff's Office Lacked Adequate Segregation Of Duties

#### **Deposits:**

The interim Sheriff's deposits were insured and collateralized by bank securities or bonds.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Foley, Bourbon County Judge/Executive  
The Honorable Michael A. Jones, Interim Bourbon County Sheriff  
The Honorable Mark Matthews, Bourbon County Sheriff  
Members of the Bourbon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the interim Sheriff of Bourbon County, Kentucky, for the period December 1, 2006 through December 31, 2006. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the interim Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the interim Sheriff for the period December 1, 2006 through December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 12, 2007 on our consideration of the interim Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Donnie Foley, Bourbon County Judge/Executive  
The Honorable Michael A. Jones, Interim Bourbon County Sheriff  
The Honorable Mark Matthews, Bourbon County Sheriff  
Members of the Bourbon County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Interim Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the interim Sheriff, the Sheriff, and Fiscal Court of Bourbon County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

June 12, 2007

BOURBON COUNTY  
MICHAEL A. JONES, INTERIM SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period  
December 1, 2006 Through December 31, 2006

Revenues

State - Kentucky Law Enforcement Foundation Program Fund		\$	993
State Fees For Services:			
Finance and Administration Cabinet			5,403
Circuit Court Clerk:			
Sheriff Security Service	\$	1,967	
Fines and Fees Collected		<u>300</u>	2,267
County Clerk - Delinquent Taxes			49
Commission On Taxes Collected			40,314
Fees Collected For Services:			
Auto Inspections		260	
Accident and Police Reports		24	
Serving Papers		2,130	
Carrying Concealed Deadly Weapon Permits		210	
Miscellaneous		<u>120</u>	2,744
Interest Earned			299
Borrowed Money:			
Bank Note			<u>10,000</u>
Total Revenues			62,069

Expenditures

## Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	6,467	
Part-Time Salaries	610	
Other Salaries	9,554	
Employee Benefits-		
Employer's Share Social Security	1,594	
Employer's Share Hazardous Duty Retirement	1,885	

The accompanying notes are an integral part of this financial statement.



BOURBON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BOURBON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The interim Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the interim Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the interim Sheriff's deposits may not be returned. The interim Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Foley, Bourbon County Judge/Executive  
The Honorable Michael A. Jones, Interim Bourbon County Sheriff  
The Honorable Mark Matthews, Bourbon County Sheriff  
Members of the Bourbon County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the interim Bourbon County Sheriff for the period December 1, 2006 through December 31, 2006, and have issued our report thereon dated June 12, 2007. The interim Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the interim Bourbon County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bourbon County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the interim Bourbon County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Interim Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the interim Bourbon County Sheriff's financial statement for the period December 1, 2006 through December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Bourbon County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

June 12, 2007

COMMENT AND RECOMMENDATION



BOURBON COUNTY  
MICHAEL A. JONES, INTERIM SHERIFF  
COMMENT AND RECOMMENDATION

For The Period  
December 1, 2006 Through December 31, 2006

STATE LAWS AND REGULATIONS:

None

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Interim Sheriff's Office Lacked Adequate Segregation Of Duties

The interim Sheriff's staff consisted of two part-time office staff and one bookkeeper who collected receipts. The bookkeeper prepared the daily checkout and posted to the receipts ledger. The bookkeeper, with the help of the part-time office staff, prepared the deposit slips, deposited money into the bank, prepared the bank reconciliations, and posted to the ledgers. The bookkeeper prepared, posted, and mailed all checks for disbursements. The interim Sheriff reviewed disbursements, signed checks, and required dual signatures. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. The interim Sheriff should have implemented steps to strengthen internal controls:

- The interim Sheriff should have reviewed the receipts ledger and agreed it to daily checkouts and deposits into the bank. He could have documented this by initialing the documents reviewed.
- The interim Sheriff should have reviewed the bank statements and reconciliations and agreed bank balances to the ledgers.

*Interim Sheriff's Response:*

*The courthouse was under renovation during this month and our office had to move twice during this time. Acting sheriff, Michael A. Jones, took deposits to the bank.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

